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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 16, 2001

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUE000736

Ex Parte: THE POTOMAC EDISON  
COMPANY d/b/a ALLEGHENY POWER-  
REGIONAL TRANSMISSION ENTITIES

ORDER PRESCRIBING NOTICE AND INVITING  
COMMENTS AND/OR REQUESTS FOR HEARING

Sections 56-577 and -579 of the Virginia Electric Utility Restructuring Act ("the Act" or "Restructuring Act"), Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia, require Virginia's incumbent electric utilities to (i) join or establish regional transmission entities ("RTE") by January 1, 2001, and (ii) seek authorization from the State Corporation Commission ("Commission") to transfer their transmission assets to such RTEs.

Specifically, § 56-577 A states in pertinent part that:

[o]n or before January 1, 2001, each incumbent electric utility owning, operating, controlling, or having an entitlement to transmission capacity shall join or establish a regional transmission entity, which entity may be an independent system operator, to which such utility shall transfer the management and control of its

transmission system, subject to the provisions of § 56-579.

Furthermore, § 56-579 A 1 provides in pertinent part that:

[n]o such incumbent electric utility shall transfer to any person any ownership or control of, or any responsibility to operate, any portion of any transmission system located in the Commonwealth without obtaining the prior approval of the Commission, as hereinafter provided.

Section 56-579 B of the Code of Virginia directed the Commission to adopt rules and regulations, with appropriate public input, establishing elements of RTE structures essential to the public interest. The Commission was also directed by § 56-579 A 2 to develop rules and regulations under which incumbent electric utilities owning, operating, controlling, or having an entitlement to transmission capacity within the Commonwealth, could transfer all or part of such control, ownership, or responsibility to an RTE upon such terms and conditions as might be prescribed by the Commission. On July 19, 2000, the Commission adopted in Case No. PUE990349, Regulations Governing Transfer of Transmission Assets to Regional Transmission Entities (20 VAC 5-320-10 et seq.).

The Potomac Edison Company d/b/a Allegheny Power Company ("AP" or "the Company") filed an application in Case No. PUE000280 on October 16, 2000, requesting that the Commission accept AP's October 5, 2000, Memorandum of Agreement ("MOA")

with the PJM Interconnection, L.L.C. ("PJM"), an independent system operator ("ISO"), under an arrangement known as "PJM West," as satisfying the Company's obligation under the Restructuring Act to join or establish a regional transmission entity ("RTE") by no later than January 1, 2001.

On December 20, 2000, the Commission entered an Order establishing Case No. PUE000736, for the purpose of considering the matters set out in the October 16, 2000, application. The December 20 Order established a procedural schedule for the receipt of comments or requests for hearing on AP's proposal and directed the Commission Staff to investigate the application and report its findings. No comments or requests for hearing were received in this matter.

On April 16, 2001, the Commission Staff filed the report of its investigation of the application. Among other things, the report updated and described the PJM West concept, commented on, and made recommendations regarding the Company's request for a finding that the MOA satisfied the statutory obligation to "join or establish" an RTE.

On May 21, 2001, the Commission entered an Order wherein it granted a waiver of Rule 20 VAC 5-320-120 to allow AP to file its transfer application after October 16, 2000, and, as recommended by Staff, rejected the request for a waiver of Rule 20 VAC 5-320-90, governing the general filing requirements for

the transfer of control, ownership, or responsibility for transmission capacity to an RTE. We directed the Company to file the information required by Rule 20 VAC 5-320-90 by no later than July 15, 2001. In addition, we authorized AP to file its application to transfer control of its transmission assets on or before September 15, 2001.

On July 6, 2001, the Company, by counsel, filed a Motion to extend the filing deadline for AP's application and the supporting information required by Rule 20 VAC 5-320-90, from July 15, 2001 to July 25, 2001. On July 12, 2001, we granted AP's Motion, extended the date by which AP was to file the information required by Rule 20 VAC 5-320-90, and directed that all other provisions of the Commission's May 21, 2001 Order were to remain in effect.

On July 25, 2001, AP, by counsel, filed the information required by Rule 20 VAC 5-320-90, as part of its application to transfer management and control of its transmission facilities to PJM under an arrangement known as "PJM West." In its application, the Company noted that on July 12, 2001, the FERC issued an Order accepting the PJM West arrangement subject to certain conditions, required a compliance filing within 60 days, and required AP and other participants to take part in a 45 day mediation process designed ultimately to achieve the creation of a single Regional Transmission Organization ("RTO") for the

entire Northeast region consisting of the PJM and PJM West region, as well as the New York and New England ISO regions. In the Order accepting the PJM West arrangements, the FERC noted that its action preserved the Company's option to join the Alliance RTO instead of PJM.

AP states in its July 25 application that its present intent was to continue with the PJM West arrangement, unless unexpected developments occurred regarding rate revenue recovery issues and/or in the mediation process regarding the creation of a Northeast Regional Transmission Organization. AP represents that to the extent future developments at FERC in any material way alter AP's plans to participate in PJM West, the Company will so advise the Commission by updating and supplementing its application.

According to the Company, PJM is the largest and most sophisticated centrally-dispatched electric control area in North America. AP contends that the operation of PJM, including the PJM West arrangement, will further the goal of creating a more competitive electric generation service market in Virginia. The Company requested that the Commission approve the transfer of the control of AP's transmission system to PJM pursuant to the PJM West arrangement, effective January 1, 2002.

In testimony and exhibits filed with its application, AP describes the rate impacts on it and its customers that it

anticipates from the implementation of the PJM West arrangement. The Company notes that upon implementation of the PJM West arrangement, PJM would become the transmission provider on the Allegheny System offering service under the PJM Open Access Transmission Tariff ("OATT"). Allegheny's OATT would be withdrawn. The Company states that all service agreements filed pursuant to Allegheny's OATT, including the Network Integration Transmission Service Agreement, will then terminate. Allegheny proposes to transfer service for its municipal and cooperative customers to the PJM OATT, and to ask its customers to execute service agreements under the PJM OATT which would bind them to the PJM OATT terms and conditions. The Company summarizes the changes its customers would see as follows: (i) a change from a load ratio share to a unit rate for network service; (ii) a requirement to pay their share of the PJM administrative costs and overhead contained in Schedules 9 and 11 of the PJM OATT and acquire ancillary services at the PJM rates; and (iii) potential liability for congestion charges under PJM's operational framework.

AP has also identified a net loss associated with joining PJM, and a total annual revenue target of \$27,699,138, which it contends it must recover to remain revenue neutral. AP proposes to recover the \$27,699,138 through a Transitional Revenue Neutrality Charge ("TRNC"), added to the PJM through and out

rate, and a Transitional Market Expansion Charge ("TMEC"). The details of these and other proposals are set forth in AP's July 25, 2001, application and accompanying documents.

NOW THE COMMISSION, upon consideration of the Company's application, is of the opinion and finds that notice should be given of the Company's application; that interested parties should have the opportunity to comment upon and request a hearing on AP's application; that the Staff should file a report on the Company's application; and that interested parties should have an opportunity to file comments responsive to the Staff's report.

Accordingly, IT IS ORDERED THAT:

(1) AP shall promptly make a copy of its application and supporting materials available to the public who may obtain a copy of the application, at no charge, by requesting it in writing from AP's counsel at the address set forth below.

(2) Any interested person may submit comments or requests for hearing on or before September 26, 2001, by filing an original and fifteen (15) copies of such written comments and/or request with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Said comments or request for hearing shall refer to Case No. PUE000736. Any request for hearing shall set forth in

detail why the concerns raised in the request for hearing cannot be adequately addressed in written comments.

(3) Any person filing a request for hearing or filing comments and desiring to be made a party to the proceeding shall also file, on or before September 26, 2001, a notice of participation in accordance with Rule 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 et seq.

(4) A copy of such comments, requests for hearing, and notice of participation shall be sent on or before September 26, 2001, to counsel for the Company as follows: Philip J. Bray, Esquire, Allegheny Power Company, 10435 Downsville Pike, Hagerstown, Maryland 21740-1766.

(5) The Commission Staff shall review the application and shall, on or before October 26, 2001, file a report detailing the result of its investigation, and shall serve a copy of the same on all parties of record.

(6) AP shall respond to written interrogatories or requests for production of documents and things within seven (7) calendar days after the receipt of same. Except as modified above, discovery shall be in accordance with Part IV of the Commission's Rules of Practice and Procedure, 5 VAC 5-20-10 et seq.



(7) On or before September 4, 2001, the Company shall publish the following notice to be published as display advertising (not classified) on one occasion in newspapers of general circulation throughout its service territory:

NOTICE TO THE PUBLIC OF AN  
APPLICATION BY THE POTOMAC EDISON COMPANY  
D/B/A ALLEGHENY POWER, FOR AUTHORITY TO  
TRANSFER MANAGEMENT AND CONTROL OF ITS  
TRANSMISSION FACILITIES TO THE PJM  
INTERCONNECTION, LLC, UNDER AN  
ARRANGEMENT KNOWN AS "PJM WEST"--  
CASE NO. PUE000736

On July 25, 2001, The Potomac Edison Company, d/b/a Allegheny Power ("AP" or "the Company"), filed an application pursuant to § 56-579 of the Code of Virginia to seek approval for the transfer of management and control of AP's transmission facilities to the PJM Interconnection, LLC ("PJM"), under an arrangement known as "PJM West", together with the information required under Rule 20 VAC 5-320-90 of the Commission's Regulations Governing Transfer of Transmission Assets to Regional Transmission Entities ("Rules").

In its application, the Company states that the Federal Energy Regulatory Commission ("FERC") issued an Order on July 12, 2001, that: (i) accepted the PJM West arrangements subject to certain conditions, (ii) required a compliance filing within 60 days, and (iii) required AP and other participants to take part in a 45 day mediation process designed ultimately to achieve the creation of a single Regional Transmission Organization for the entire Northeast region, consisting of the PJM/PJM West Region as well as the New York and New England Independent System Operator regions. AP indicated that its present intent was to continue with the PJM West arrangement, unless unexpected developments occurred

regarding certain rate revenue recovery issues and/or in the mediation process regarding the creation of the Northeast Regional Transmission Organization.

In its application and accompanying testimony, AP describes the rate impacts on it and its customers of the implementation of the PJM West arrangement. The Company alleges that upon implementation of the PJM West arrangement, PJM would become the transmission provider on the Allegheny System offering service under the PJM Open Access Transmission Tariff ("OATT"). Allegheny's OATT would be withdrawn. The Company states that all service agreements filed pursuant to Allegheny's OATT, including the Network Integration Transmission Service Agreements, would then terminate. Allegheny proposes to transfer service for customers served under its service agreements to the PJM OATT, and to ask customers to execute service agreements under the PJM OATT which would bind them to the PJM OATT terms and conditions. The Company summarizes the changes these customers would see as follows: (i) a change from a load ratio share to a unit rate for network service; (ii) a requirement to pay their share of the PJM administrative costs and overhead contained in Schedules 9 and 11 of the PJM OATT and acquire ancillary services at the PJM rates; and (iii) potential liability for congestion charges under PJM's operational framework.

In its application and accompanying documents, AP has identified a net loss associated with joining PJM, and a total annual revenue target of \$27,699,138, which the Company contends must be recovered to remain revenue neutral. AP proposes to recover the \$27,699,138 through a Transition Revenue Neutrality Charge ("TRNC"), added to the PJM through and out rate, and a Transition Market Expansion Charge ("TMEC"), contained in new Schedule 11 to the PJM

OATT. The details of these and other Company proposals are set forth in AP's application and accompanying documents. Interested persons are encouraged to review these documents for the details of these proposals.

A copy of the captioned application is available for public inspection between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday, in the Commission's Document Control Center, located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia. The application may also be requested in writing from AP's counsel at the address noted below.

An original and fifteen (15) copies of any comments on the application or requests for hearing must be submitted in writing to Joel H. Peck, Clerk, State Corporation Commission, Post Office Box 2118, Richmond, Virginia 23218, on or before September 26, 2001, referring to Case No. PUE000736. A copy of any such comments or request for hearing shall also be served on AP's counsel on or before September 26, 2001, at the address noted below. Requests for hearing shall state why a hearing is necessary and why the issues necessitating a hearing cannot be adequately addressed in written comments. Any person filing comments and desiring to become a party to the proceeding or filing a request for hearing shall also file a notice of participation as required by Rule 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedure on or before September 26, 2001.

All correspondence should refer to Case No. PUE000736. A copy of any comments or request for hearing and notice of participation must also be sent on or before September 26, 2001, to counsel for AP as follows: Philip J. Bray, Esquire, Allegheny Power Company, 10435 Downsville Pike, Hagerstown, Maryland 21470-1766.

If no sufficient request for hearing is received, a formal hearing at which oral testimony is received might not be held.

Interested persons may obtain a copy of the Commission's Order Prescribing Notice and Inviting Comments and/or Requests for Hearing setting out complete procedural schedule applicable thereto, from the Commission's web site, <http://www.state.va.us/scc/caseinfo/orders.htm>, or by directing a written request for a copy of the same to Joel H. Peck, Clerk of the Commission at Post Office Box 2118, Richmond, Virginia 23218, and referring to Case No. PUE000736.

THE POTOMAC EDISON COMPANY D/B/A  
ALLEGHENY POWER

(8) On or before September 4, 2001, the Company shall serve a copy of this Order upon governmental entities within its service territories as follows: (i) upon the Chairman of the Board of Supervisors of any county, (ii) upon the Mayor or Manager of any county or city, or (iii) upon officials comparable to the foregoing within counties, cities, or towns having alternative forms of governments. Service shall be made by first-class mail, or by delivery to the customary place of business or the residence of the person served.

(9) On or before November 12, 2001, the Company and any interested person may file with the Clerk of the Commission any response to the Staff's Report and shall send copies of the same on or before November 12, 2001, to other parties of record.

(10) On or before September 26, 2001, the Company shall file with the Clerk of the Commission proof of the notice and service required by Ordering Paragraphs (7) and (8).

(11) This matter shall be continued pending further order of the Commission.